VZCZCXRO8933
PP RUEHMA RUEHPA
DE RUEHRY #0337/01 1661411
ZNR UUUUU ZZH
P 151411Z JUN 09
FM AMEMBASSY CONAKRY
TO RUEHC/SECSTATE WASHDC PRIORITY 3746
INFO RUEHZK/ECOWAS COLLECTIVE
RHEFDIA/DIA WASHINGTON DC
RUEAIIA/CIA WASHDC
RHMFISS/HQ USAFRICOM STUTTGART GE
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS SECTION 01 OF 02 CONAKRY 000337

SIPDIS
SENSITIVE

E.O. 12958: N/A
TAGS: ECON EFIN PGOV PREL ASEC GV
SUBJECT: BUSINESSES AND BANKS FEAR CURRENCY REVALUATION

REF: CONAKRY 0318

¶1. (SBU) Summary: Many economic actors are nervous over a possible revaluation of the Guinean Franc (GNF) (reftel) and large business transactions have come to a virtual halt in anticipation of the rate change. Meetings with banking officials, members of the Foreign Exchange Commission, and Guinean business people revealed fierce opposition to the proposed revaluation, as well as the CNDD,s management of economic affairs. According to contacts, the CNDD has failed to address business concerns and has threatened the operational stability of businesses who oppose the measure, as well as the physical security of individual dissenters. End Summary.

The Question of Revaluation

¶2. (U) The CNDD reportedly began discussions over revaluating the exchange rate on June 1. Though no policy has yet been instituted, the CNDD is pressing business people to support their intended peg of 3500 GNF to the dollar (a devaluation of around 25%). The junta held several meetings among themselves and with businesspeople, even forming a commission, to discuss the proposed peg.

¶3. (SBU) According to Embassy contacts, the commission was formed of leaders in the business community, banking sector, and foreign exchange committee. The Commission concluded that a peg of any valuation less than 4500 GNF to the dollar would have devastating consequences. Tiegboro Camara, the Secretary of State for Special Services, Anti-Narcotics, and Organized Banditry, reportedly reacted angrily to the Commission,s findings. He warned that all members should support the 3500 Guinean Franc peg or expect to find themselves in a precarious relationship with the government.

¶4. (SBU) The business community seemed most concerned about the ability of the Central Bank to support such a dramatic rate valuation. With an admitted 22 million USD in reserves, the Bank is incapable of backing the valuation of the GNF at this level. Any move toward an overvaluation would be artificial at best. Contacts also worried that the subsequent shortage of foreign currency would create a large informal market for foreign exchange, where, they believe, the dollar would be sold for as much as 8000 GNF.

¶5. (SBU) An Embassy contact at Western Union noted that the GOG has revaluated the GNF twice in the past 6 years. In 2007, the rate was changed from 6000 GNF to the dollar to
¶3000. Though the peg lasted only three weeks, Western Union in Guinea lost over 700,000 USD, roughly 90% of the location,s revenue for that period.

¶6. (U) In anticipation of the revaluation policy, many importers are suspending imports until their profit margin increases with the valuation. Exporters, on the other hand, are selling off their foreign currency and suspending operations to prepare for their impending downsizing. The banking sector also seems to be selling foreign currency to prevent massive revenue loss.

¶7. (SBU) The Foreign Exchange Commission told Econoff that they see this policy as a result of corruption and military rule. Without economists in charge of the economy, they say, uneducated decisions will be made for the sake of political expediency.

COMMENTS

¶7. (SBU) Though it is as yet unclear whether the CNDD will in fact revaluate the GNF, the speculation of such a policy is already being felt in the business community. In a country where rumors run rampant and a recession has already taken hold, such a decision could cause severe unrest among the country,s small business community. CNDD officials have argued that this valuation would help Guinea's poor afford imports that have, until now, been too expensive. In the long run, however, the policy would most certainly make the economic situation worse for the least advantaged Guineans. While it seems that many poor Guineans buy into this

rhetoric, much of the business community is worried. END COMMENT.
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